

American Telephone & Telegraph Co.

REPORT OF THE BOARD OF DIRECTORS
TO THE STOCKHOLDERS
FOR THE YEAR

1931



New York
195 BROADWAY
1932

American
Telephone & Telegraph Co.

REPORT OF THE BOARD OF DIRECTORS
TO THE STOCKHOLDERS
FOR THE YEAR

1911



American Telephone and Telegraph Company

January 1, 1932

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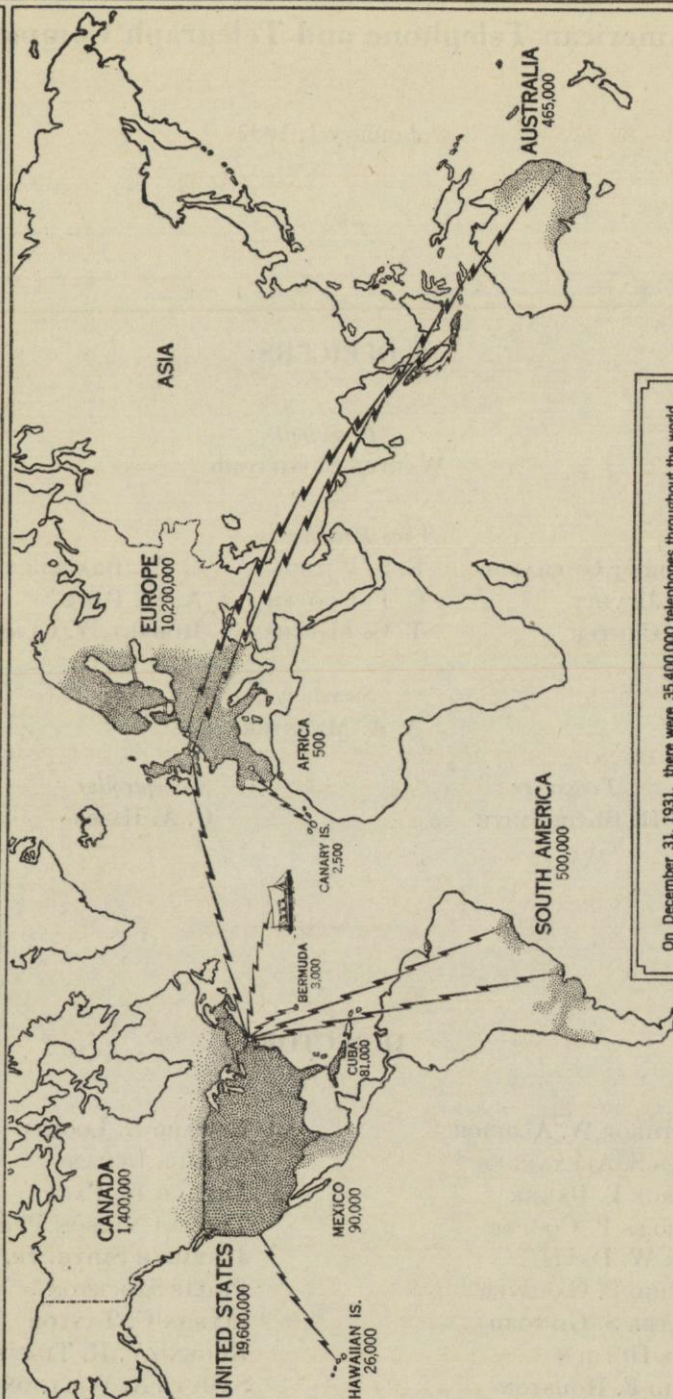
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TELEPHONE CONNECTIONS OF THE BELL SYSTEM



On December 31, 1931, there were 35,400,000 telephones throughout the world. 32,400,000 of these were connected with the Bell System. In addition, seven ocean liners are equipped for intercommunication with Bell System telephones.

Report of the Directors
of
American Telephone and Telegraph Company

New York, March 3, 1932.

TO THE STOCKHOLDERS:

The number of Bell System telephones during 1931 decreased 292,000, or a little less than 2 per cent, as compared with a net gain in 1930 of 122,500. Including approximately 4,200,000 telephones operated by some 6,900 connecting companies or on connecting rural lines, the total number of telephones in the United States interconnected in and with the Bell System at the end of the year was 19,600,000.

Local telephone conversations were about 1 per cent less and toll and long-distance conversations were 6 per cent less than in 1930. During the last quarter the decreases compared with the last quarter of 1930 were about 2 per cent and 9 per cent respectively.

Total assets of the System increased \$24,000,000, amounting at the end of the year to \$5,024,335,000. Preferred stock and bonds amounting to \$83,596,000 were retired during the year. Cash assets—including funds temporarily invested in Government obligations—were \$289,000,000 on December 31, 1931.

Total operating revenues of the System decreased \$28,000,000 or 2.6 per cent. At the same time, in spite of an increase of \$4,000,000 in taxes and \$10,000,000 in depreciation, total expenses decreased \$29,000,000. Operating income was, therefore, slightly in excess of last year, but a reduction of \$11,000,000 in non-operating revenues—due to a reduction in dividends received from the Western Electric Company—resulted in net earnings of \$258,000,000 or \$10,000,000 less than in 1930. These net earnings were at the rate of 5.1 per cent on the cost of plant and other assets.

The number of stockholders of the American Telephone and Telegraph Company at the end of 1931 was 644,903, an increase of 77,209 for the year. The average holding per stockholder was 29 shares, as compared with 32 shares at the end of 1930. The earnings of the Company per share were \$9.05, compared with \$10.44 in 1930.

It has been the aim of the Bell System for many years to plan its construction program so as to avoid, so far as practicable, extraordinary fluctuations from year to year. This aids stabilization of employment and, in the long run, results in economies. The construction expenditures for 1930 were at substantially the level of 1929, but the much reduced growth of the business in 1930 followed by an actual decline in 1931 forced a curtailment in these expenditures for 1931. While the net additions to plant of \$149,000,000 during the year were the lowest since 1920, every effort was made to move forward replacement and betterment work with the result that the gross construction expenditures during the year were \$391,000,000, which is larger than in any year except 1928, 1929 and 1930.

The property has been fully maintained and the Bell System ended a year full of difficulties for business generally with its property more up to date and in better condition than ever before.

EXTENSIONS OF SERVICE

During the year oversea telephone service was extended to the Islands of Java and Sumatra in the Dutch East Indies, to Latvia, to the whole of Italy and Sicily (where previously it embraced only Northern Italy, Rome and Vatican City), to the Canary Islands, to the principal cities of Rumania, to Rio de Janeiro in Brazil, to the Island of Bermuda and to the Hawaiian Islands.

The opening of service to Hawaii recalls the fact that at Pearl Harbor, near Honolulu, sixteen years ago a Bell System engineer with experimental radio receiving apparatus heard voices transmitted over land and sea from Arlington, Virginia. During these same tests in 1915 listeners at the Eiffel Tower in Paris also heard voices from Arlington. This was the genesis of the transatlantic telephone service, opened in 1927. Now about 92 per cent of the 35,400,000 telephones in

the world can be reached from any telephone connected with the Bell System. The use of oversea telephone service continues to grow—the number of transatlantic connections increased 21 per cent over 1930.

Ship-to-shore telephone service was extended during 1931 to additional liners, making seven in all. Radio stations are being installed for ship-to-shore service with tug-boats and other harbor craft at Boston, New York, Seattle, San Francisco and Los Angeles.

Extension of the telephone cable network continued during 1931, including the completion of cable extensions from Chicago and St. Louis to Omaha and Kansas City. A fourth submarine cable between Key West and Havana was opened to service during the year. This new cable, with its three telephone channels (as compared with one in each of the other three cables), is the result of development work by Bell System research engineers.

By the close of 1931 the major part of the air transport routes of the United States, including about 90 airport ground stations and about 250 airplanes, had been supplied with Western Electric radiotelephone equipment. This equipment is employed for the dispatching of airplanes and for the maintenance of two-way telephone communication between the pilots and the airport personnel. Teletypewriter circuits totaling about 30,000 miles are being used for the transmission of meteorological information and other communications relating to air transportation.

In addition to special sales forces, practically all employees participated in efforts to sell telephone service—a convincing indication of an informed and effective interest of the employees in the business. These efforts resulted in new installations greater than in any year prior to 1928. The net loss in telephones was due to the unusual number of disconnections.

THE NEW TELETYPEWRITER SERVICE

For more than 40 years the Bell System has furnished a private-wire service to banks, brokers, press associations and others. Teletypewriters (machines that typewrite electrically over wires) have been used on these private wires since 1915. Toward the end of the year a new type of communication ser-

vice was introduced known as teletypewriter exchange service which has possibilities of an ultimate development of substantial proportions. This new service consists of the establishment and operation of central switching exchanges for teletypewriters. Any subscriber to this service can obtain immediate two-way written communication with any other subscriber to the service within the same city or in a distant city.

IMPROVEMENTS IN SERVICE

The success of the Bell System depends in times of depression as well as in times of prosperity on its concentration on its main objective—a telephone service for the nation, free so far as humanly possible from imperfections, errors or delays, and enabling at all times anyone, anywhere to pick up a telephone and talk to anyone else, anywhere else, clearly, quickly and at a reasonable cost. The efforts of management with the wholehearted cooperation of the entire personnel continued to be directed toward that objective with the result that, in spite of the unsettled business conditions, the telephone service in 1931 was never more uniformly satisfactory.

On toll and long-distance calls, cut-offs, interruptions and transmission difficulties were the lowest and the speed of the service the highest on record. Eighty-nine per cent of long-distance calls were completed or a definite report given without the person making the call hanging up the telephone. Compared with 1930, some 20,000,000 more calls were handled on this basis.

There was a marked reduction in the amount of trouble on both the open wire and cable circuits.

The handling of local telephone service was improved in all respects. Eighty-two and four-tenths per cent of all calls were completed on the first attempt, an improvement of seven-tenths of one per cent over 1930. This improvement meant better service on approximately 175,000,000 calls in 1931. The per cent of errors was reduced and was the lowest on record.

Eighty-nine per cent of the customers' orders for telephones were handled on the appointment basis and in 97 per cent of the cases the telephone was installed on the appointment date specified by the customer.

Trouble on subscribers' lines or telephones was the lowest

on record and the per cent of trouble cleared on the day of report was the highest of any year, being 92.

Errors in directory listings, which were already small, decreased 17 per cent and errors in delivery of directories decreased 20 per cent.

Uncollectible losses were kept well in hand, being eight-tenths of one per cent of the gross operating revenues, which is practically the same as in 1930.

Progress was made during the year in the conversion from manual to dial operation. About 37 per cent of the Bell System telephones were served from dial system central offices at the end of the year.

The handset continued to grow in popularity, approximately 1,000,000 additional having been installed in 1931.

RESEARCH AND DEVELOPMENT

There has been no substantial reduction in development and research activity other than that occasioned by the closing of Bell Telephone Laboratories on Saturday mornings beginning in August.

With lessened pressure during the year for new things urgently required for immediate use by the operating companies, and because of postponement to a later date of a few highly technical projects, such as the transatlantic telephone cable, there has been a transfer of emphasis to some of the more fundamental problems.

There are always many research and development problems the solution of which is potentially of great value either from the standpoint of economy or the betterment of service. Frequently, however, they require a large amount of fundamental research work before they can be brought to the stage where practical application can be undertaken. In times of heavy demand for new plant or new methods from the operating companies it is often necessary to defer work on problems of this kind and devote the energies of the staff to matters of more immediate concern. In periods of reduced activity it is possible to attack vigorously those major problems whose solution will be of great future benefit to the Bell System.

As examples of the fundamental types of problem on which it was possible to concentrate during 1931 might be men-

tioned the investigation of wide-frequency band transmission over cable circuits and the investigation of magnetic materials which ~~are~~ such an important part in the efficient functioning of communication apparatus.

It now seems clear that circuits can be provided in aerial or underground cable that will have characteristics permitting an extremely wide band of frequencies to be transmitted with substantial uniformity throughout the band. The net result of this work has been to open up the possibility of very long circuits, each of which can carry a very large number of non-interfering telephone communications, and a very much larger number of non-interfering telegraph communications.

Equally promising and in an entirely different direction have been the results of the fundamental work on materials, and particularly on magnetic materials, following the already striking advances which were made in the development of permalloy and perminvar in our laboratories a few years ago.

WESTERN ELECTRIC COMPANY, INCORPORATED

The decline in the gross business of the Bell System, even though small, deprived the Western Electric Company of part of its usual manufacturing based on the normal growth of the telephone industry. Total sales amounted to \$229,000,000, compared with \$361,000,000 in 1930.

To provide employment for the greatest number, short-time operation was very generally applied and on August 1st a maximum of five days per week employment and remuneration was adopted throughout the company, including officers and their staffs. As a result, in spite of a 37 per cent decrease in business, the average number of employees in 1931 was greater than in any year except 1929 and 1930. Employees at the end of the year numbered 44,600.

Dividends paid totalled \$10,500,000, as compared with \$23,250,000 in 1930.

Electrical Research Products, Inc. (wholly owned by the Western Electric Company) maintained its position of its recording and sound reproducing apparatus in the moving picture industry. At the end of 1931 there were approximately 5,400 Western Electric reproducing systems in theatres in the United States and 3,200 in theatres abroad.

THE MAINTENANCE OF EMPLOYMENT

Everything practical was done to keep, so far as possible, all regular employees on the payroll; in some instances, as when specific jobs were completed in territories where other work was not available, lay-offs were unavoidable, but the number of employees laid off by Bell telephone companies in 1931 was not as great as in normal years.

Employment was kept at a maximum by the inclusion in the construction program of betterments and replacements which could be advanced. The continuance of the program of conversion of manual operation to dial resulted in net additional employment throughout the year of more than 10,000 persons. Increased sales efforts and the new teletypewriter exchange service were helpful. Employees were transferred from departments not busy to busy departments and, where possible, from localities not having work to localities having work available.

In order to spread available work so that the maximum number could be kept employed, more than half of the employees of the Bell telephone companies by the end of the year were working less than full time. Also, the employees of the Western Electric Company and the Bell Telephone Laboratories were working only five days a week or less.

Because of the reduced use of telephone service by the public and the consequent slowing up of the construction program there was less work to be done, with the result that for the most part losses from the forces due to voluntary resignation, death or retirement necessarily were not replaced. The Bell System, including the Western Electric Company and the Bell Telephone Laboratories, employed 344,800 persons at the end of the year compared with 394,400 at the end of the previous year.

The System's experience in this depression is being recorded and studied to see whether any plan can be devised for a still better handling of the employment situation in possible future periods of depression. Normally, expenditures are undertaken by either an individual or a corporation when it is felt that they can be afforded, after giving due consideration to all other demands that have to be met. Business management naturally is inclined to spend when income is high and to restrict expenditures when income is low. This tends to

lift the peaks and lower the valleys of employment, which is a hardship on individual employees and is detrimental to the business in the long run. It would seem that an employment reserve set aside out of earnings in prosperous years, might aid in further stabilization of work as well as prove a protection for labor much as a surplus is a protection for capital. As such a reserve could be built up only after conditions improve, the adoption of such a plan is not immediate but it will continue to receive serious study and consideration.

The several thrift plans previously set up and available to Bell System employees were continued during the year. These plans include the opportunity to buy stock of the American Telephone and Telegraph Company by deductions from pay, an arrangement for depositing pay deductions in savings banks and an arrangement for using pay deductions for the payment of life insurance premiums. The use of any of the plans is entirely discretionary with the employee. About 70 per cent of all employees are making use of one or more of these plans.

The Plan providing for Employees' Pensions, Disability Benefits and Death Benefits completed its twentieth year of operation. Under this Plan in 1931 the Bell System paid \$9,000,000 for pensions, benefit payments in cases of sickness or death, and compensation in cases of accident. Per 1,000 employees, accidents causing loss of work-time were the lowest on record.

The employees' representation plans introduced into the Bell System in 1919, played an important part in the handling of problems created by the unusual business conditions. In the discussion of such matters as the spreading of work, resulting in part time employment and proportionate reduction in earnings for those affected, both management and employee representatives showed ability, tolerance and understanding.

The employees have shown a genuine sense of responsibility toward the business and toward the public, and effectively met the difficult problems of the year.

For the Directors,

WALTER S. GIFFORD,

President.

VAIL MEDAL AWARDS

The Theodore N. Vail Memorial Fund provides annual awards in recognition of unusual acts of service by Bell System employees. The awards this year from the Fund were three silver medals with \$250 cash each and thirty-nine bronze medals, all with accompanying citations.

SILVER MEDAL AWARDS

HAZEL HILAH HAASE

*Chief Operator, Clinton, Indiana
Indiana Bell Telephone Company*

For initiative, resourcefulness and intelligent use of telephone service in protecting the public interest.

LEONARD J. STRANG

*Window Washer, Cleveland, Ohio
The Ohio Bell Telephone Company*

For initiative, resourcefulness and extraordinary courage in saving the life of a fellow-employee.

IVAN F. VANNOY

*Repairman, Winchester, Virginia
The Chesapeake and Potomac Telephone Company
of Virginia*

For initiative, resourcefulness and intelligent action in saving telephone central office equipment from fire and restoring the telephone service of a community.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet, December 31, 1931

ASSETS

INVESTMENTS:

Stocks of Associated Companies	\$1,939,270,421.51
Investment, at cost, in stocks of associated telephone companies. Increase for the year \$161,207,728. See page 13.	
Stocks of Other Companies	168,855,388.28
Investment, at cost, in stocks of affiliated and subsidiary companies other than Associated Companies. Increase for the year \$162,500. See page 13.	
Bonds and Notes of, and Advances to, Associated Companies . .	316,577,487.47
Temporary financing of Associated Companies for the extension of their telephone properties, including also \$836,044 investment in bonds of these companies. Decrease for the year \$4,051,452.	
Notes of, and Advances to, Other Companies	51,197,000.00
Loans and advances to affiliated and subsidiary companies, other than Associated Companies. Increase for the year \$201,500. See page 13.	

PLANT AND EQUIPMENT:

Long Lines Plant and Equipment	459,632,581.50
Cost of long-distance plant and equipment mainly for providing interconnection between and through territories of Associated Companies. Increase for the year \$24,321,565.	
General Equipment	1,566,814.39
Cost of office furniture and equipment other than that included in Long Lines Plant and Equipment.	

CURRENT ASSETS:

Accounts Receivable	13,078,792.09
Current receivables, including dividends, interest, tolls and other items.	
Temporary Investments	233,424,180.33
Funds temporarily invested in municipal, state and United States Government short-term obligations and special bank deposits in anticipation of financial requirements.	
Cash	21,043,681.84
Cash and deposits in banks available for current requirements.	
Total Assets	<u><u>\$3,204,646,347.41</u></u>

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Balance Sheet, December 31, 1931, Continued

LIABILITIES

CAPITAL STOCK:

Stock Issued and Outstanding (Authorized \$2,500,000,000) . . .	\$1,865,836,100.00
Total par value of shares outstanding. Increase for the year \$70,184,900. See page 14.	

Installments	72,339,276.21
Installments paid on stock subscribed for but not yet issued. Decrease for the year \$39,123,760. See page 14.	

Premiums	268,568,584.31
Amount received in excess of par value of capital stock. Increase for the year \$9,436,982. See page 14.	

LONG-TERM DEBT:

Bonds and Debentures	458,300,900.00
Face value of debt obligations in the form of bonds and debentures. Decrease for the year \$4,314,800. See page 14.	

Notes	13,122,615.05
Notes sold to Trustee of Pension Fund.	

CURRENT LIABILITIES:

Dividend Payable January 15, 1932	41,981,294.25
Dividend declared for last quarter of 1931.	

Accounts Payable	17,514,834.73
Current accounts for supplies, services, etc.	

Interest and Taxes Accrued, Not Due	12,395,176.74
Interest and taxes payable after close of year.	

SURPLUS AND RESERVES:

Reserve for Depreciation	64,429,195.96
Provision for the ultimate retirement of plant and equipment used up in furnishing telephone service. Increase for the year \$6,282,547.	

Reserve for Contingencies	64,664,444.18
(No change during the year.)	

Surplus	325,493,925.98
Increase for the year, \$3,124,456, comprising:	
Net Income carried to Surplus	\$3,078,059
Miscellaneous additions (net)	46,397

Total Liabilities	<u>\$3,204,646,347.41</u>
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C. A. HEISS, Comptroller.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Statement of Earnings and Expenses for the Year Ending December 31, 1931

EARNINGS

Dividends	\$150,135,883.73
Dividends on stocks owned. As a whole these dividends were earned with a margin of about \$3,400,000.	
Interest	27,138,693.99
Interest on notes and advances, on bonds owned, on temporary investments and bank deposits, and on other accounts.	
Telephone Operating Revenues	109,317,960.95
Revenues from operation of the long-distance lines and payments from the Associated Companies for services furnished them under the license contracts.	
Miscellaneous Revenues	1,249,510.25
Total	\$287,842,048.92

EXPENSES	90,024,636.38
Expenses incurred in conducting the business, including depreciation and taxes.	

NET EARNINGS	\$197,817,412.54
Deduct Interest	31,150,878.84
Interest on bonds, debentures and other indebtedness.	

NET INCOME	\$166,666,533.70
Deduct Dividends	163,588,474.25
Dividends at the rate of \$9.00 per share per annum on capital stock.	
Balance for Surplus	\$ 3,078,059.45

Average number of shares of capital stock outstanding during year	18,419,461
Net earnings per share available for dividends (after interest charges)	\$9.05

C. A. HEISS, Comptroller.

LYBRAND, ROSS BROS. & MONTGOMERY
ACCOUNTANTS AND AUDITORS
90 BROAD STREET
NEW YORK

February 5, 1932.

We have audited the accounts of

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

for the year ended December 31, 1931. We have reviewed reports for that year rendered to the company by the associated and controlled companies and find that the American Telephone and Telegraph Company's proportion of the aggregate net income of the associated and directly and indirectly controlled companies as shown by such reports exceeded the dividends of \$150,135,883 this company received on stocks owned by about \$3,400,000. We have not, however, audited the accounts of associated and controlled companies.

We certify that, in our opinion, the accompanying balance sheet (on pages 10 and 11) and the above statement of earnings and expenses (subject to the explanation in the preceding paragraph) set forth correctly the financial position of American Telephone and Telegraph Company as at December 31, 1931 and the results of its operations for the year 1931.

LYBRAND, ROSS BROS. & MONTGOMERY.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Stocks of Associated and Other Companies December 31, 1931

	Par Value of Holdings	Per Cent of Total Outstanding
Stocks of Associated Companies—Common:		
New England Telephone and Telegraph Company	\$ 86,203,600	64.65
Southern New England Telephone Company	13,337,400	33.34
New York Telephone Company	371,300,000	100.00
New Jersey Bell Telephone Company	120,395,200	100.00
Bell Telephone Company of Pennsylvania	110,000,000	100.00
Diamond State Telephone Company	5,000,000	100.00
Chesapeake and Potomac Telephone Company	18,000,000	100.00
Chesapeake and Potomac Telephone Co. of Balt. City	30,000,000	100.00
Chesapeake and Potomac Telephone Co. of Virginia	18,000,000	100.00
Chesapeake and Potomac Telephone Co. of West Virginia	16,200,000	100.00
Southern Bell Telephone and Telegraph Company	124,998,700	99.99
Ohio Bell Telephone Company	129,999,100	99.99
Cincinnati and Suburban Bell Telephone Company	8,169,150	29.72
Michigan Bell Telephone Company	109,988,607	99.99
Indiana Bell Telephone Company	32,999,100	99.99
Wisconsin Telephone Company	40,000,000	100.00
Illinois Bell Telephone Company	148,729,500	99.15
Northwestern Bell Telephone Company	75,000,000	100.00
Southwestern Bell Telephone Company	172,998,800	99.99
Mountain States Telephone and Telegraph Company	34,987,500	72.82
Pacific Telephone and Telegraph Company	151,239,900	83.79

Stocks of Associated Companies—Preferred:

Pacific Telephone and Telegraph Company	64,042,700	78.10
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Stocks of Other Companies—Common:

Bell Telephone Laboratories, Inc.	50,000	(a) 50.00
Bell Telephone Securities Company	1,000,000	100.00
Bell Telephone Company of Canada	18,749,800	24.47
Cuban American Telephone and Telegraph Company	432,500	50.00
Western Electric Company, Inc. (no par value)	(b) 5,900,493	98.34
195 Broadway Corporation	5,500,000	100.00
Eastern Telephone and Telegraph Company (Canada)	75,000	100.00
Transpacific Communication Company, Ltd.	25,000	100.00

Stocks of Other Companies—Preferred:

Cuban American Telephone and Telegraph Company	371,000	50.00
(a) Remaining 50% owned by Western Electric Company, Inc.		
(b) Number of shares.		

In addition to the above-mentioned Associated Companies there are three such companies all of whose stock is owned by The Pacific Telephone and Telegraph Company: the Bell Telephone Company of Nevada, the Home Telephone and Telegraph Company of Spokane and the Southern California Telephone Company.

Notes of, and Advances to, Other Companies December 31, 1931

Western Electric Company, Inc.	\$14,000,000
Bell Telephone Securities Company	6,550,000
195 Broadway Corporation	17,350,000
Bell Telephone Laboratories, Inc.	2,250,000
Bell Telephone Company of Canada	9,075,000
Eastern Telephone and Telegraph Company (Canada)	1,410,000
Transpacific Communication Company, Ltd.	562,000
Total	\$51,197,000

AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Changes in Capital Stock and Capital Stock Premiums During 1931

	Capital Stock	
	Par Value	Premiums
Balance December 31, 1930	\$1,795,651,200.00	\$259,131,602.75
Issued for cash in accordance with the terms of the offer of April 16, 1930 to stockholders of record May 23, 1930	38,920,800.00	.....
Issued to employees of the Bell System upon completion of installment payments under Employees' Stock Plan	31,264,100.00	9,436,981.56
Balance December 31, 1931	<u>\$1,865,836,100.00</u>	<u>\$268,568,584.31</u>
Increase during year	<u>\$ 70,184,900.00</u>	<u>\$ 9,436,981.56</u>

Changes in Capital Stock Installments During 1931

Capital Stock Installments December 31, 1930:		Amount
From employees under Employees' Stock Plan		\$ 88,234,303.81
From stockholders under terms of offer of April 16, 1930		23,228,732.37
Total		<u>\$111,463,036.18</u>
Capital Stock Installments December 31, 1931:		
From employees under Employees' Stock Plan		\$ 72,339,276.21
Decrease during year		<u>\$ 39,123,759.97</u>

Changes in Bonds and Debentures Outstanding During 1931

	Face Value	Decreases
	Dec. 31, 1931	
5% Collateral Trust Bonds, 1946	\$ 67,143,000.00	(a)\$ 753,000.00
5% Collateral Trust Bonds, 1932 (Western T.&T. Co.)	8,808,500.00	(b) 680,000.00
5½% Debenture Bonds, 1943	96,500,700.00	(a) 409,000.00
5% Debentures, 1960	120,336,700.00	(a) 602,000.00
5% Debentures, 1965	150,000,000.00	.....
4% Convertible Bonds, 1936 (c)	2,589,000.00	.....
4½% Convertible Bonds, 1933 (d) . . . . .	.....	1,870,800.00
4½% Convertible Bonds, 1939	12,923,000.00	.....
Total	<u>\$458,300,900.00</u>	<u>\$4,314,800.00</u>

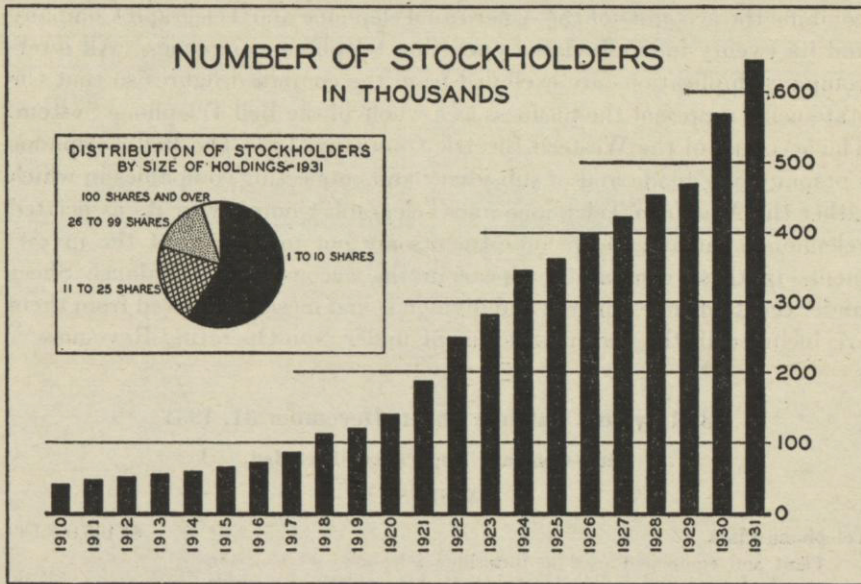
(a) Reacquired for sinking fund.

(b) Reacquired and retired.

(c) Conversion privilege expired.

(d) Redeemed on March 1, 1931.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY



The number of stockholders of record on December 31, 1931 was 644,903, an increase of 77,209 over the previous year. The average holding per stockholder is now 29 shares, as compared with 32 shares at the end of 1930.

More than 125,000 Bell System employees are stockholders, having acquired shares through small installment payments under Employees' Stock Plans. The average holding per employee stockholder is 10 shares.

For the past 50 years the American Telephone and Telegraph Company and its predecessor have paid regular quarterly dividends to stockholders at the annual rate of at least \$7.50 per share. The table below gives the net earnings per share available for dividends.

NET EARNINGS PER SHARE

1912	\$ 9.86	1922	\$11.14
1913	9.59	1923	11.35
1914	9.38	1924	11.31
1915	9.52	1925	11.79
1916	9.77	1926	11.95
1917	9.48	1927	11.76*
1918	9.97	1928	12.11
1919	10.05	1929	12.67
1920	11.72	1930	10.44
1921	11.10	1931	9.05

* Does not include special dividend from Western Electric Company, Inc.

BELL SYSTEM FINANCIAL STATEMENTS

The Bell System Balance Sheet and Income Statement which follow combine the accounts of the American Telephone and Telegraph Company and its twenty-four associated operating telephone companies. All inter-company duplications are excluded from the combined figures so that the statements represent the business as a whole of the Bell Telephone System. The accounts of the Western Electric Company, Inc., The Bell Telephone Company of Canada and of subsidiary and connecting companies in which either the American Telephone and Telegraph Company or its associated telephone companies have investments are not included, but the investments in these companies appear in the accompanying Balance Sheet under the item Investments, and dividends and interest received from them are included in the Income Statement under Non-Operating Revenues.

Bell System Balance Sheet, December 31, 1931

(Inter-Company Duplications Excluded)

ASSETS

Telephone Plant	\$4,195,063,589
Plant and equipment used in furnishing telephone service; comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, etc. Increase for the year \$151,641,850.	
General Equipment, Tools and Supplies	95,708,659
Materials and supplies, office furniture and fixtures, automobiles, tools, etc. Decrease for the year \$7,018,605.	
Investments	305,514,657
Investments in stocks and bonds of, and advances to, subsidiary and connecting companies, and in miscellaneous property. These investments include stocks of Western Electric Company, Inc., The Bell Telephone Company of Canada, etc. Increase for the year \$21,762,569.	
Accounts Receivable	138,519,006
Current accounts receivable from telephone subscribers, and amounts receivable from connecting companies and others.	
Temporary Investments	239,289,893
Funds temporarily invested and held available for conversion into cash as needed.	
Cash	50,239,747
Cash and deposits in banks available for current requirements.	
Total Assets	<u>\$5,024,335,551</u>

NOTE: All items of intangible assets carried in the accounts of Bell System companies are excluded from the Bell System Balance Sheet through a corresponding reduction in the Surplus.

BELL SYSTEM FINANCIAL STATEMENTS
Bell System Balance Sheet, December 31, 1931, Continued
 (Inter-Company Duplications Excluded)

LIABILITIES

Capital Stock (Including Installments)		\$2,172,897,419
Par value of capital stock outstanding in hands of public, including also installment payments on stock not yet issued. Increase for the year \$17,844,693.		
Common Stock		
American Telephone and Telegraph Co.	\$1,865,836,100	
Associated Companies	136,731,443	
Common Stock Installments		
American Telephone and Telegraph Co.	72,339,276	
Preferred Stock		
Associated Companies	97,990,600	
Premiums on Capital Stock		268,152,953
Net amount received in excess of par value of capital stock outstanding in hands of public.		
Long-Term Debt		1,054,824,529
Face value of funded obligations outstanding in hands of public. Decrease for the year \$60,767,694.		
Mortgage Bonds		
Associated Companies	\$487,179,595	
Collateral Trust Bonds		
American Telephone and Telegraph Co.	75,951,500	
Associated Companies	388,850	
Debenture Bonds		
American Telephone and Telegraph Co.	368,905,900	
Associated Companies	10,000,000	
Convertible Bonds		
American Telephone and Telegraph Co.	12,923,000	
Notes sold to Trustee of Pension Fund		
American Telephone and Telegraph Co.	13,122,615	
Associated Companies	85,801,069	
Notes—Miscellaneous		
Associated Companies	552,000	
Bills Payable		937,000
Short-term obligations payable within one year.		
Accounts Payable		79,292,391
Current bills for supplies, services, etc.		
Accrued Liabilities Not Due		125,983,017
Dividends, interest, taxes, rents, etc., payable after close of year.		
Reserves for Depreciation of Plant and Equipment		788,586,005
Provision for the ultimate retirement of plant and equipment used up in furnishing telephone service. Increase for the year \$48,580,130.		
Reserves for Contingencies		85,289,952
Increase for the year \$2,072,380.		
Surplus		448,372,285
Total Liabilities		\$5,024,335,551

BELL SYSTEM FINANCIAL STATEMENTS

Bell System Income Statement

For Year Ending December 31, 1931

(Inter-Company Duplications Excluded)

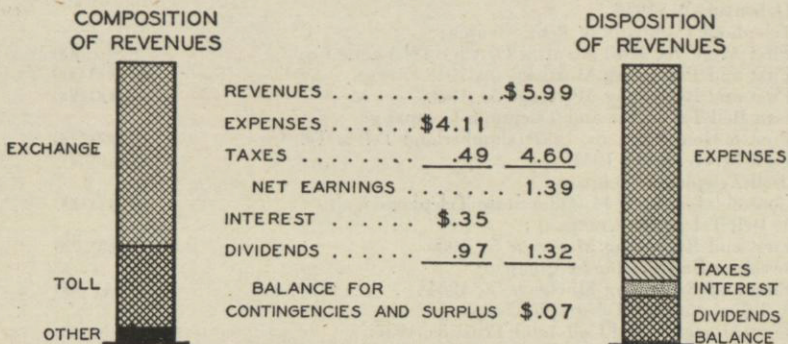
Exchange Revenues	\$ 723,920,495
Revenues from local exchange service.	
Toll Revenues	326,268,854
Revenues from long-distance and local toll service.	
Miscellaneous Revenues	25,567,924
Revenues derived from directory advertising and miscellaneous sources.	
Total Operating Revenues	<u>\$1,075,757,273</u>
Current Maintenance	\$ 177,021,733
Cost of inspection, repairs and rearrangements required to keep the telephone plant and equipment in good operating condition, representing 4.4 per cent of the cost of the average plant in service during the year.	
Depreciation Expense	192,307,175
Provision to meet loss of investment when telephone property is retired from service, based on rates of depreciation for the different classes of property which spread this loss of investment uniformly over its service life. Depreciation expense during 1931 represented 4.9 per cent of the cost of the average depreciable plant in service.	
Traffic Expenses	199,942,702
Expenses incurred in the handling of telephone calls; principally operators' wages.	
Commercial Expenses	103,503,879
Expenses incurred in business relations with subscribers, including the rendering of bills and collection of accounts; also the cost of advertising, sales activities, directories, pay station commissions, etc.	
General and Miscellaneous Expenses	66,382,880
Expenses of the Executive, Accounting, Financial and Legal Departments, insurance premiums, sickness, accident and death benefits, pensions and other items of general expense incurred in operating the properties.	
Total Operating Expenses	<u>\$ 739,158,369</u>
Net Operating Revenues	<u>\$ 336,598,904</u>
Uncollectible Revenues	\$ 8,861,863
Revenues earned which, based on experience, cannot be collected.	
Taxes	90,630,592
Federal, state and local taxes applicable to the year's operations.	
Operating Income (Carried forward)	<u>\$ 237,106,449</u>

BELL SYSTEM FINANCIAL STATEMENTS

Bell System Income Statement, Continued

Operating Income (Brought forward)	\$237,106,449
Non-Operating Revenues—Net	36,567,982
Dividends and interest received from investments in the Western Electric Company, Inc., The Bell Telephone Company of Canada, and in subsidiary and connecting companies; interest on bank balances and temporary investments, minor rent revenues and other miscellaneous non-operating income.	
Total Gross Income	\$273,674,431
Rents and Miscellaneous Deductions	\$ 15,575,451
Mainly rentals paid for the use of buildings, poles, conduits and other facilities.	
Net Earnings	\$258,098,980
Interest Deductions	\$ 64,719,802
Interest charges on funded and other debt obligations, including amortization of debt discount.	
Net Income	\$193,379,178
Dividends	\$180,904,344
To holders of preferred stock of	
Associated Companies	\$ 6,428,174
To holders of common stock of	
Associated Companies	10,887,696
American Telephone and Telegraph Co.	163,588,474
Balance	\$ 12,474,834

AVERAGE MONTHLY REVENUES AND EXPENSES PER TELEPHONE IN BELL SYSTEM FOR YEAR ENDING DECEMBER 31, 1931



BELL SYSTEM STATISTICS

Security Issues Outstanding December 31, 1931

(Inter-Company Holdings Excluded)

	Par Value	Increase* During Year
Common Stock (American Telephone and Telegraph Company) (a)	\$1,938,175,376	\$31,061,140
Common Stock (Associated Companies):		
New England Telephone and Telegraph Company	\$ 47,142,100	\$ 207,200
Southern New England Telephone Company	26,662,600	.....
Cincinnati and Suburban Bell Telephone Company	19,319,250	.....
Mountain States Telephone and Telegraph Company	13,062,200	.....
Pacific Telephone and Telegraph Company	29,260,100	650,000
Illinois Bell Telephone Company	1,270,500	2,400
Other Associated Companies	14,693	100
Total Common Stock, Associated Companies	<u>\$136,731,443</u>	<u>\$ 859,500</u>
Preferred Stock (Associated Companies):		
New York Telephone Company 6½%	\$ 25,000,000	.....
Bell Telephone Company of Pennsylvania 6½%	20,000,000	.....
Diamond State Telephone Company 6½%	500,000	.....
Chesapeake and Potomac Tel. Co. of Baltimore City 7%	3,000,000	.....
Ohio Bell Telephone Company 7%	.....	\$12,359,747
Wisconsin Telephone Company 7%	4,947,000	.....
Northwestern Bell Telephone Company 6½%	4,800,800	2,800
Southwestern Bell Telephone Company 7%	21,785,500	.....
Pacific Telephone and Telegraph Company 6%	17,957,300	.....
Total Preferred Stock, Associated Companies	<u>\$ 97,990,600</u>	<u>\$12,356,947</u>
Bonds and Notes (American Telephone and Telegraph Company) (b):	Face Value	
Collateral Trust 5s, 1932 (Western Tel. & Tel. Co.)	\$ 8,808,500	\$ 680,000
Collateral Trust 5s, 1946	67,143,000	753,000
Debenture 5s, 1960	120,306,700	602,000
Debenture 5s, 1965	149,959,000	6,000
Debenture 5½s, 1943	96,051,200	430,000
Convertible 4s, 1936 (c)	2,589,000	.....
Convertible 4½s, 1933	.....	1,870,800
Convertible 4½s, 1939	12,923,000	.....
Notes (sold to Trustee of Pension Fund)	13,122,615	1,577,401
Total Bonds and Notes, American Tel. and Tel. Co.	<u>\$470,903,015</u>	<u>\$ 2,764,399</u>
Bonds and Notes (Associated Companies) (b):		
New England Telephone and Telegraph Company:		
Debenture 5s, 1932 (d)	\$ 9,747,000	\$ 253,000
First Mortgage Series A 5s, 1952	35,000,000	.....
First Mortgage Series B 4½s, 1961	40,000,000	.....
Southern New England Telephone Company:		
Debenture 5s, 1970	10,000,000	.....
New York Telephone Company:		
First and General Mortgage 4½s, 1939	60,836,070	234,110
Refunding Mortgage Series A 6s, 1941	.....	49,659,000
Debenture 6s, 1949	.....	19,707,300
Bell Telephone Company of Pennsylvania:		
First Mtge. 5s, 1943 (Central District Telephone Co.)	8,861,500	232,000
First and Refunding Mortgage 5s, 1948	35,000,000	.....
First and Refunding Mortgage 5s, 1960	50,000,000	.....
Southern Bell Telephone and Telegraph Company:		
First & Gen. Mtge. 5s, 1937 (Cumberland Tel. & Tel. Co.)	14,969,000	.....
First Mortgage 5s, 1941	47,536,500	.....
Ohio Bell Telephone Company:		
Consolidated 5s, 1944 (Ohio State Telephone Co.)	4,860,000	87,000
Illinois Bell Telephone Company:		
First and Refunding Mortgage 5s, 1956	48,820,200	156,000
Southwestern Bell Telephone Company:		
First and Refunding Mortgage 5s, 1954	49,041,600	197,000
Pacific Telephone and Telegraph Company:		
First Mortgage and Collateral Trust 5s, 1937	27,424,000	547,000
First & Ref. Mtg. 5s, 1947 (Southern California Tel. Co.)	5,840,000	60,000
Refunding Mortgage 5s, 1952	23,921,000	123,000
Minor Bond Issues (21 in number)	21,875,850	382,380
Notes (principally notes sold to Trustee of Pension Funds)	86,353,069	14,206,987
Real Estate Mortgages	3,835,725	692,492
Total Bonds and Notes, Associated Companies	<u>\$583,921,514</u>	<u>\$58,003,296</u>

(a) Includes installments.

(b) Includes issues assumed or guaranteed.

(c) Conversion privilege expired.

(d) Now secured by mortgage.

* Decreases in italics.

BELL SYSTEM STATISTICS

Employees' Benefit Plan

The Plan for Employees' Pensions, Disability Benefits and Death Benefits has been maintained by all Bell System companies since 1912. Payments thereunder during 1931 for Bell System telephone companies were as follows:

Pensions	\$2,222,127
Sickness disability benefits	5,038,081
Accident disability benefits	724,853
Death benefits	1,065,659
Total Payments under Plan	\$9,050,720

On December 31, 1931, there were 2,919 employees on the pension rolls, receiving service or disability pensions under the Plan. The average pension paid was \$64 per month.

Thrift Plans Available to Bell System Employees

Employees' Stock Plans

Employees who have been in service for six months may purchase stock of the American Telephone and Telegraph Company and pay therefor by monthly deductions from salary, the number of shares being determined by the employee's annual rate of pay. Dividends received from shares acquired under stock purchase plans may be applied to the purchase of additional shares. The minimum period within which an employee may complete his payments and acquire stock is 35 months. This privilege is in effect in all Bell System companies and their subsidiaries, including the Western Electric Company, Inc., and the Bell Telephone Laboratories, Inc. Participation in the Plans at the end of 1931 was as follows:

Number of employees purchasing stock	233,000
Per cent of purchasers to total number eligible	67
Number of shares on which payments are being made	1,064,006
Price per share since August 31, 1929	\$150

Employees' Savings Plans

Employees may arrange for regular deductions from salary in specified amounts, which are deposited for them in savings banks in personal accounts subject to their control. Fourteen companies including the Western Electric Company, Inc., and the Bell Telephone Laboratories, Inc., are providing such facilities for their employees. Participation in these Plans at the end of 1931, was as follows:

Number of employees for whom deposits were being made	69,780
Amount of monthly deposits	\$1,073,586

Payroll Deduction Plans for Life Insurance

Employees may obtain from certain life insurance companies standard forms of life insurance policies and make monthly premium payments through deductions from salary which are forwarded to the insurance company. All Bell System companies, including the Western Electric Company, Inc., and the Bell Telephone Laboratories, Inc., provide such a Plan for their employees. Participation in the Plans at the end of 1931 was as follows:

Number of employees purchasing insurance	59,994
Amount of monthly premium deductions	\$348,885
Amount of insurance in effect	\$138,000,000

In addition eighteen Bell System telephone companies make monthly deductions from payroll aggregating \$13,174 for 1,785 employees, veterans of the World War, who are paying for approximately \$6,750,000 of United States Government insurance.

BELL SYSTEM STATISTICS

	Dec. 31, 1915	Dec. 31, 1920	Dec. 31, 1925	Dec. 31, 1930	Dec. 31, 1931	Increase* During 1931
Number of Telephones:						
Manual Service.....	5,968,110	8,176,884	10,538,935	10,705,118	9,659,349	1,045,769
Dial Service.....	0	157,095	1,496,289	4,976,941	5,730,645	753,704
Total.....	5,968,110	8,333,979	12,035,224	15,682,059	15,389,994†	292,065
Per Cent Dial Service to Total Telephones	..	1.9	12.4	31.7	37.2	.....
Number of Central Offices.....	5,300	5,702	6,017	6,585	6,645	60
Miles of Pole Lines.....	330,602	358,091	386,064	422,489	421,707	782
Miles of Wire:						
In Underground Cable.....	10,573,000	15,748,000	30,483,000	50,225,000	52,214,000	1,989,000
In Aerial Cable.....	4,602,000	5,885,000	10,672,000	20,785,000	21,951,000	1,166,000
Open Wire.....	3,331,000	3,744,000	4,319,000	5,238,000	5,074,000	164,000
Total.....	18,506,000	25,377,000	45,474,000	76,248,000	79,239,000	2,991,000
Per Cent Total Wire Mileage in Cable....	82.0	85.2	90.5	93.1	93.6	.....
Average Daily Telephone Conversations:†						
Exchange.....	25,184,000	31,836,000	46,702,000	62,365,000	62,205,000	160,000
Toll.....	819,000	1,327,000	2,098,000	2,933,000	2,700,000	233,000
Total.....	26,003,000	33,163,000	48,800,000	65,298,000	64,905,000	393,000
Total Plant.....	\$880,069,000	\$1,363,826,000	\$2,524,906,000	\$4,043,422,000	\$4,195,063,000	\$151,641,000
Number of Employees§.....	156,294	231,316	293,095	324,343	294,766§	29,577
Number of A. T. and T. Co. Stockholders..	65,512	139,448	362,179	567,694	644,903	77,209

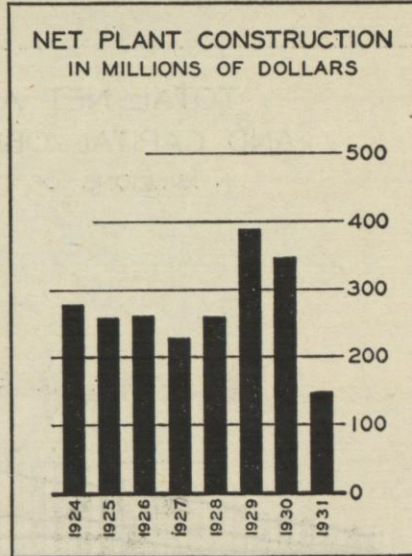
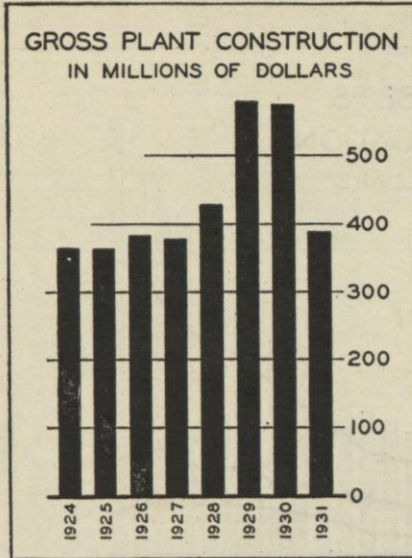
* Decreases shown in italics.

† Including telephones of 6,928 connecting companies and 27,816 connecting rural lines, the total number of telephones in the United States which may be interconnected is approximately 19,600,000.

‡ For year ending December 31.

§ The employees of the Western Electric Company, Inc., and the Bell Telephone Laboratories, Inc., numbering 50,079 on December 31, 1931, are not included.

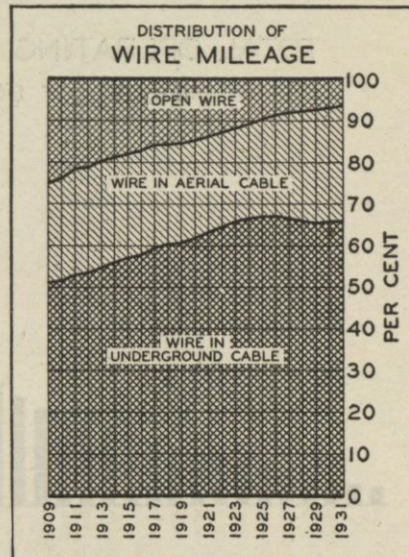
BELL SYSTEM STATISTICS



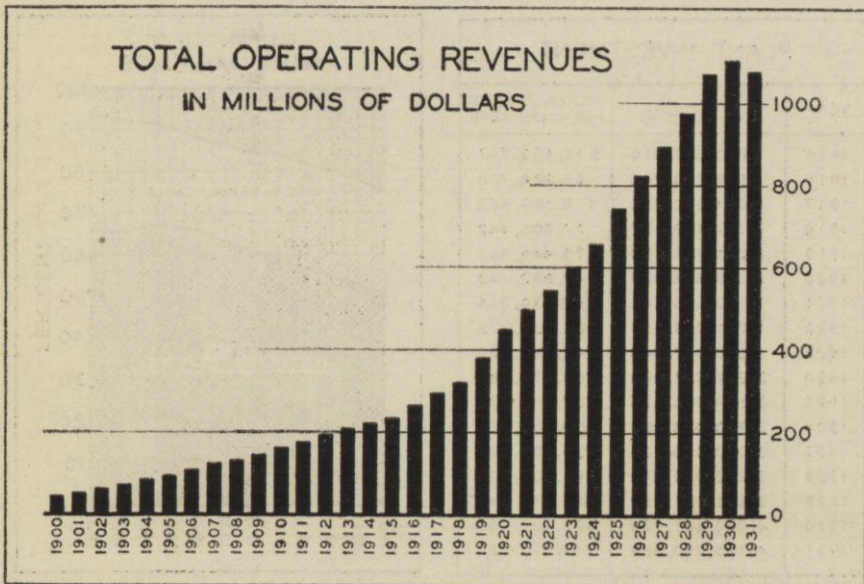
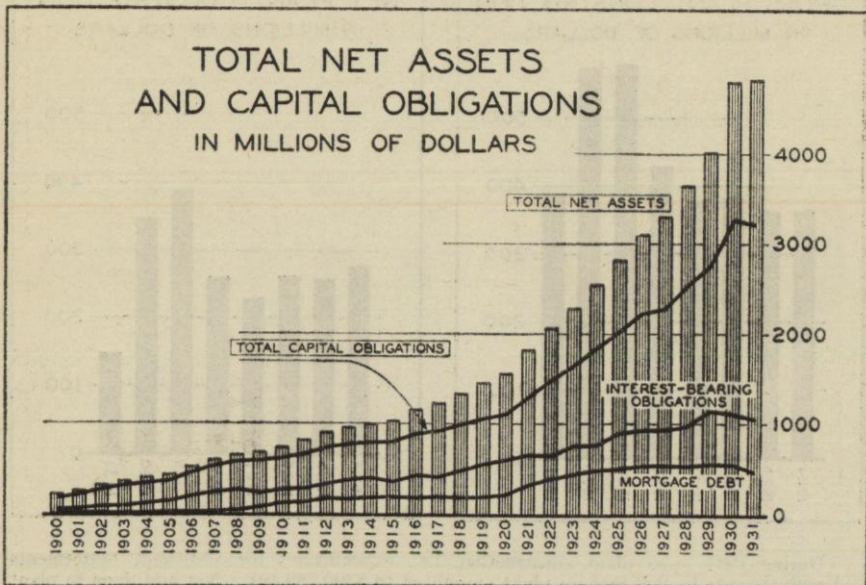
During 1931 gross plant construction, i.e., expenditures for additions, betterments and replacements to Bell System plant amounted to \$390,789,491. Net additions to plant amounted to \$148,903,029, the major portion of gross construction work consisting of replacements of plant.

The table below shows total plant investment and the yearly increase in such investment from 1915 to date. The chart shows the percentage distribution of the wire mileage in the Bell System—open wire, wire in aerial cable, and wire in underground cable.

PLANT INVESTMENT		
YEAR	TOTAL AT END OF YEAR	INCREASE OVER PREVIOUS YEAR
1915	\$ 880,068,520	\$ 32,863,717
1916	946,293,248	66,224,728
1917	1,064,892,710	118,599,462
1918	1,142,498,152	77,605,442
1919	1,215,944,184	73,446,032
1920	1,363,826,327	147,882,143
1921	1,543,865,545	180,039,218
1922	1,729,219,520	185,353,975
1923	1,978,947,543	249,728,023
1924	2,266,923,466	287,975,923
1925	2,524,905,590	257,982,124
1926	2,783,023,059	258,117,469
1927	3,013,985,120	230,962,061
1928	3,275,686,848	261,701,728
1929	3,671,099,689	395,412,841
1930	4,043,421,739	372,322,050
1931	4,195,063,589	151,641,850

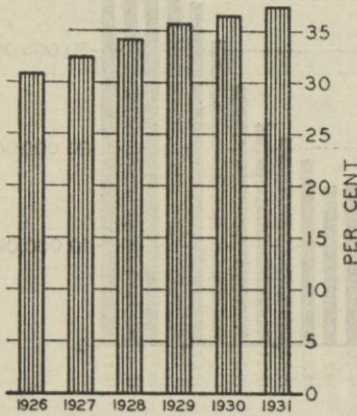


BELL SYSTEM STATISTICS

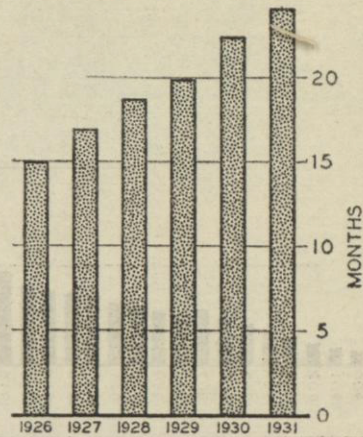


BELL SYSTEM STATISTICS

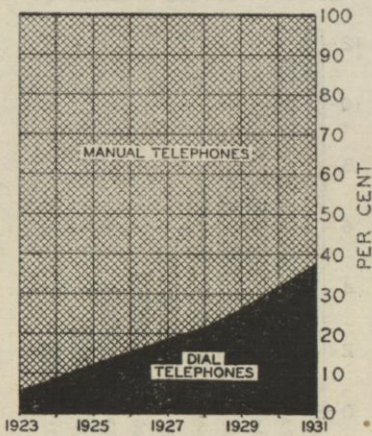
OVER 35% OF ALL
RESIDENCE SUBSCRIBERS NOW HAVE
INDIVIDUAL LINES



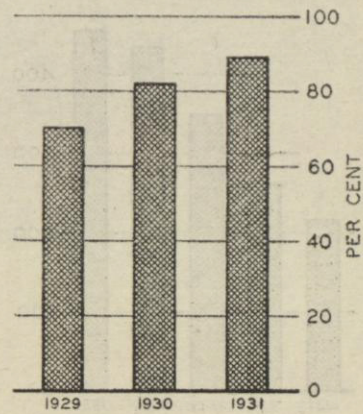
THE AVERAGE TIME A TELEPHONE
IS WITHOUT TROUBLE AFFECTING SERVICE
HAS BEEN INCREASED TO 24 MONTHS

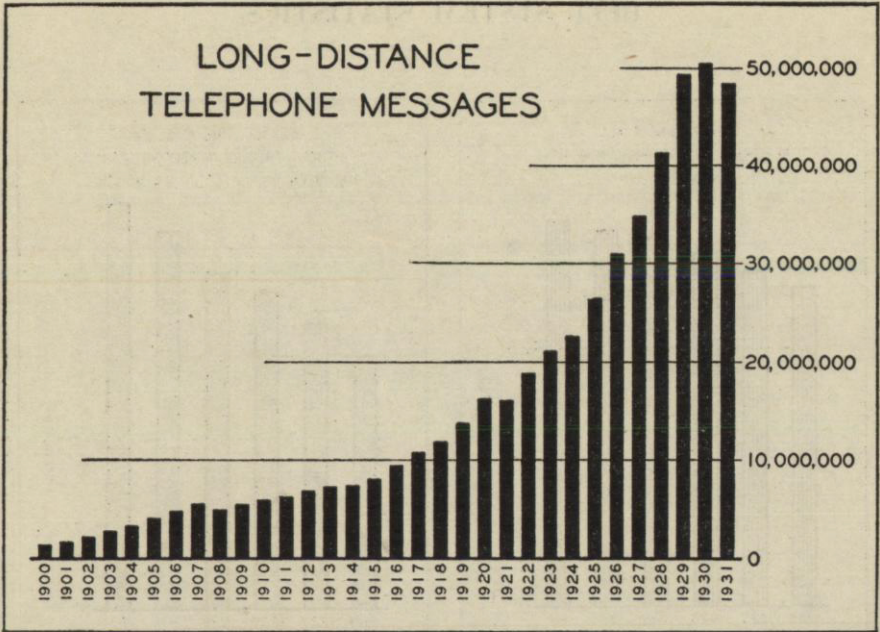


OF THE 15,400,000 BELL-OWNED
TELEPHONES 5,700,000 OR ABOUT 37%
ARE DIAL TELEPHONES



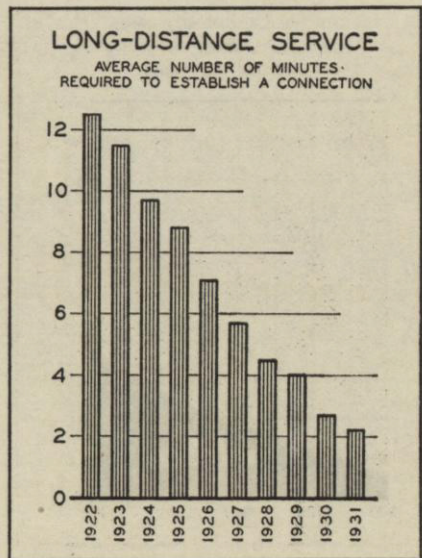
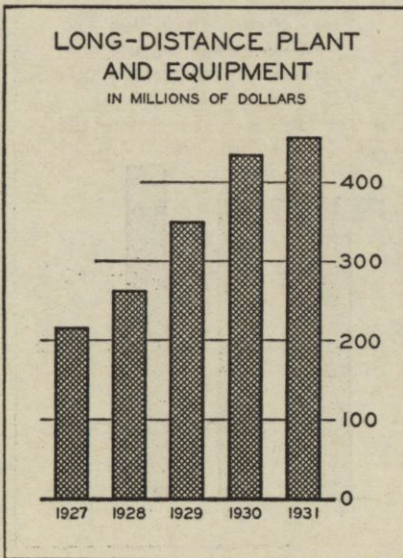
89% OF LONG-DISTANCE CALLS
ARE HANDLED WITH CUSTOMER
REMAINING AT THE TELEPHONE





The chart above shows the total number of telephone messages transmitted over the long-distance lines of the American Telephone and Telegraph Company each year since 1900. These long-distance lines provide interconnection between the territories of the Associated Operating Companies of the Bell System and with telephones in other countries.

Below at the left is shown the total investment in long-distance plant and equipment of the American Telephone and Telegraph Company at the end of each year since 1927, and at the right, the reduction which has taken place since 1922 in the average time required to establish a long-distance telephone connection over its lines.



NUMBER OF TELEPHONES IN THE BELL SYSTEM

ON DECEMBER 31, 1931
THERE WAS ONE TELEPHONE
TO EACH 6 OF THE
TOTAL POPULATION OF
THE UNITED STATES

